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UNCLAS SECTION 01 OF 02 ADDIS ABABA 002254

SENSITIVE
SIPDIS

TREASURY FOR U.S. EXECUTIVE DIRECTOR TO WORLD BANK AND
U.S. EXECUTIVE DIRECTOR TO AFRICAN DEVELOPMENT BANK
TREASURY ALSO FOR REBECCA KLEIN
AF/EPS FOR ELLIOT REPKO
EEB/IFD/ODF FOR BROOKE WALKER
USAID FOR COO/PAC KERRI DIZOGLIO

E.O. 12958: N/A
TAGS: [EAID](#) [EAGR](#) [ECON](#) [PGOV](#) [PREL](#) [ET](#)
SUBJECT: GOVERNMENT DIVERTS WORLD BANK PROJECT FUNDING TO
BUDGET SUPPORT

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SUMMARY

1. (SBU) The Ethiopian Council of Ministers on August 1 approved the transfer of U.S. \$301 million from on-going World Bank and African Development Bank (AfDB) projects to provide subsidized fertilizer to the agricultural sector. The funding -- U.S. \$237 million from World Bank projects and U.S. \$64 million from African Development Bank projects -- represents a diversion of 10 percent of the total portfolio value of both development banks. According to a press statement issued August 1 from the Office of the Prime Minister, and confirmed by the World Bank, the purpose of the diverted funding "is to transfer funds being secured for the execution of ongoing development projects to the purchase of agricultural inputs, particularly fertilizer." World Bank/Ethiopia's Communications Officer Gelila Woodeneh confirmed that the funds were diverted under the Bank's Global Food Crisis Response Facility (GFRF) program. Providing hard currency for a down payment on Ethiopian Government (GoE) procured fertilizer that will only be received in summer 2009, this transfer represents de facto budget support by the World Bank and AfDB to the GoE, circumventing standard reviews by these institutions' Boards of Directors to perpetuate the state dominance of, and control over, the agricultural sector without addressing Ethiopia's current food shortfall or relief distribution challenges.

2. (SBU) World Bank Communications Officer Gelila Woodeneh confirmed to Post on August 13 that funds were diverted from projects across a variety of sectors including agriculture/rural development, transport, trade, water supply, energy, etc. She explained that low performing projects were canceled to divert some funds, while funds from projects with slow implementation timelines were diverted with repayment to reimburse those projects later in the life of the projects. Additionally, an \$85 million "gain" from exchange rate fluctuations since projects funded through

Special Drawing Rights were approved, was allocated to the diversion. The World Bank confirmed that the GoE, in consultation with World Bank/Ethiopia, selected which projects would experience cuts. They could not confirm if the decision was reviewed or approved by the Bank's Board of Executive Directors.

¶3. (SBU) The World Bank confirmed to Post on August 15, that funding was not/not diverted from the contentious Protecting Basic Services (PBS) project established in 2006 to provide block grants to regional governments as an alternative to budget support. Nevertheless, World Bank Resident Representative Kenicha Ohashi told Bloomberg on August 14 "this is like budget support; it is helping the government with hard currency."

¶4. (SBU) The GFRP program was intended to provide rapid assistance to governments to address the immediate term burdens of high world food prices. While the World Bank justified the diverted funds to Post by arguing that the purchase of fertilizer would "boost agricultural production in the short term," Ms. Woodeneh later confirmed that the fertilizer purchased with the diverted funds would not reach Ethiopia until summer 2009. The scheme is not combined with any form of heightened engagement to develop improved government policies to address persistent market inefficiencies.

COMMENT

¶5. (SBU) While Ethiopia is in the midst of an acute food crisis and rising world fuel and fertilizer prices affect domestic prices, Ethiopia's food price dynamics are

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overwhelmingly insular and bear little relation to world food prices. Increases in Ethiopia's agricultural productivity in recent years, in fact, stem from the expansion of land under cultivation rather than improvements in yield per acre. The diversion of development bank funds to purchase fertilizer will counter world fertilizer price increases to maintain existing fertilizer supply levels domestically, but fundamentally does little if anything to remedy the inefficiencies in Ethiopia's agricultural sector or to enhance food security. The Bank's endorsement of this move -- which will have no impact for at least one year -- under the auspices of an expedited, limited-review mechanism to address the immediate term impacts of the food crisis, is concerning. As the GoE continues to renege on its promise to permit social monitoring safeguards to ensure transparency in the World Bank's budget support alternative PBS project, the Bank should now be looking to move further away from budget support, not closer to it. End Comment.

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